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TAX·FEATURES

Tax Foundation Looking Forward to 50 More Years

Foundation's Key Programs and Research to Continue

Median Family's Disposable Income Falls in 1989; Rising Inflation and Taxes End 7-Year Streak of Increases

Accelerating inflation and direct federal taxes will outpace the growth of the U.S. family's income, reducing its purchasing power in 1989. A typical family — a household with two earners employed full-time, year-round with two dependent children — will experience a net decrease in real income of $152 in 1989 after adjusting for direct federal taxes. This is the first decline seen in seven years, as real family income after direct federal taxes had been increasing an average of $633 a year since 1982.

The two-earner family that made $29,627 in 1980 is now earning an estimated $49,326. However, taking direct federal taxes and inflation into account, the $19,699 increase in this family's income between 1980 and 1989 resulted in only a $3,639 net gain. Over 80 percent of increased income has been eroded by direct federal taxes and inflation.

Federal Taxes

Since 1980, the federal income tax paid by the median family has risen 52.2 percent despite two major income tax changes in 1981 and 1986. These legislative tax reductions have helped lighten the burden, but have not nearly offset the increased tax receipts caused by income growth and inflation. The federal income tax, which claimed 13.7 percent of the family's total income in 1980, fell to a low of 11.8 percent in 1985 but has quickly rebounded to 12.5 percent.

The bite that Social Security takes out of the typical family's income has increased more steadily — at $3,684 in 1989, it is more than double the $1,816 paid in 1980. Social Security

(See AVERAGE FAMILY on page 2)

The Tax Foundation is pleased to announce a new arrangement to continue its research and programs as a separate unit of the Citizens for a Sound Economy Foundation (CSEF). The independent research that became the hallmark of the Tax Foundation will continue in the tradition of its 50-year history.

James Q. Riordan, former chairman of the Tax Foundation, and James C. Miller III, former Director of the Office of Management and Budget and current chairman of CSE, will serve as co-chairmen of a policy council, now in formation, which will include many current trustees of the Tax Foundation: Richard J. Hiegel, M. Alanson Johnson II, W. Bruce Thomas, Hans W. Wanders, Edward L. Addison, Roland M. Bixler, The Hon. Harry F. Byrd, Jr., Dr. John C. Burton, and Kenneth Iverson. Wayne Gable will be the president of the new entity, and the new Tax Foundation offices will be located at L'Enfant Plaza in Washington.

The new Tax Foundation executives stressed that maintaining the objective research and programs of the Tax Foundation is their number one concern. "The Tax Foundation has carved out a special role in the policy community over its 50-year history, and it is an important role," said Mr. Gable. "We want to see its programs and its invaluable research continue."

At the same time, the Tax Foundation has gained the energy and talents of professionals committed to its success. Daniel Witt will head development efforts and David Makarechian will direct research, publications, and other Tax Foundation programs. Mr. Riordan remarked, "CSEF shares our commitment to the maintenance of the objectivity, fairness, and integrity of the Tax Foundation's research and programs."

The Tax Foundation is completing projects slated for 1989 and is planning an ambitious program for 1990. *Tax Features* will resume a monthly publication schedule, and the twenty-fifth edition of *Facts and Figures on Government Finance* will be available soon. Robert F. Hannon and Glenn W. White have agreed to chair a Program Committee that will advise the Tax Foundation on conferences, publications, and special studies.

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will claim 7.5 percent of the family's 1989 earnings, up from 6.1 percent in 1980. These direct federal taxes will absorb 20 percent of family income, down only slightly from the 1981 peak of 20.3 percent.

Inflation

The upswing in inflation is the most significant reason for the decline in the typical family's purchasing power in 1989. Inflation, which stood at 13.5 percent in 1980, had declined fairly steadily to a low of 1.9 percent in 1986, giving the growth rate in family income a chance to outpace inflation during this period. But subsequently, inflation accelerated and has already exceeded 5 percent in the first half of 1989. If inflation had just remained at its 1988 level of 4.1 percent, this family would have realized a $178 net increase in real income instead of a $152 loss.

The sizable 66 percent nominal income gain the two-earner family has made since 1980 has been reduced to only a 10.2 percent gain after direct federal taxes and inflation are taken into account. Other indirect federal taxes and state and local tax increases not shown here have further offset the family's increased earnings.

The accompanying table and chart provide additional details on the fate of family income since 1980.

Median Family Income Before and After Direct Federal Taxes and Inflation

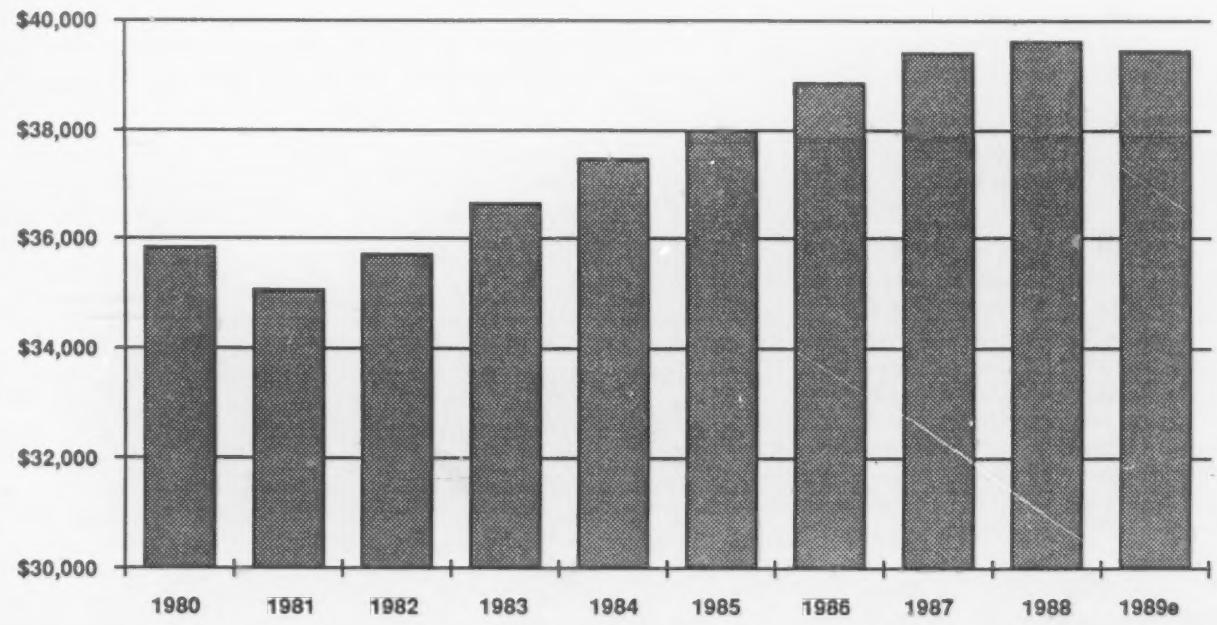
1980-1989

Year	Two-Earner Median Family Income[a]	Direct Federal Taxes: Income Tax[b]	Direct Federal Taxes: Social Security	Direct Federal Taxes: Total	After-Tax Income: Current Dollars	After-Tax Income: 1989 Dollars[c]
1980	$ 29,627	$ 4,050	$ 1,816	$ 5,866	$ 23,761	$ 35,839
1981	32,224	4,386	2,143	6,529	25,695	35,102
1982	34,515	4,450	2,313	6,763	27,752	35,717
1983	36,106	4,300	2,419	6,719	29,387	36,642
1984	38,713	4,634	2,710	7,344	31,369	37,478
1985	40,593	4,787	2,862	7,649	32,944	38,042
1986	42,492	5,158	3,038	8,196	34,296	38,884
1987	44,536	5,291	3,184	8,475	36,061	39,411
1988[d]	46,870	5,632	3,510	9,142	37,728	39,630
1989[d]	49,326	6,164	3,684	9,848	39,478	39,478

[a] Median income for household with two earners employed full-time, year round.
[b] Married couple filing joint return, two dependent children.
[c] Adjusted by consumer price index, estimated 5% inflation in 1989.
[d] Estimate.
Source: U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics; U.S. Treasury Department, Internal Revenue Service, and Tax Foundation.

Median Family Income After Direct Federal Taxes and Inflation

1980 - 1989



U.S. Health Bill Grabs 15 Cents of Each Tax Dollar

Costs Will Surpass Social Security and National Defense Combined!

Will Americans be three times healthier in 10 years? Probably not. However, national health expenditures are expected to triple by the year 2000.

The U.S. spent a record $500 billion on health care in 1987, a 9.8 percent increase over the 1986 level and nearly 12 times the amount spent in 1965, according to the most recent statistics available. Federal, state and local governments picked up $207 billion of the health-expense tab, with 70 percent ($145 billion) of the total coming from Uncle Sam. State and local governments anted up the remaining $62 billion.

National health expenditures are expected to triple by the year 2000.

Per capita health spending has reached a level of $1,987, nearly ten times the per capita spending in 1965. Since 1975, tax funds have provided about 42 cents of every dollar spent on the nation's sharply rising health bills. In 1965, taxes furnished only 26 cents. The tremendous tax burden caused by government health costs shows no signs of abating.

To get a clear picture of how enormous our health outlays have become, health costs have nearly doubled, as a percent of gross national product (GNP), from 5.9 percent of GNP in 1965 to 11.1 percent in 1987 — higher than any other industrial nation. Unfortunately, this will still not be enough!

The Health Care Financing Administration (HCFA) estimates the nation's health costs and projects health expenditures will reach $1.5 trillion by the year 2000 — a whopping 15 percent of GNP or $5,551 for every man, woman, and child. The numbers reveal the story of how steadily Uncle Sam's involvement in health care has grown over the years. Federal health spending has grown much faster than medical spending generally. In 1987 private health spending was 9 times its 1965 level and state/local spending was 11 times greater, but federal spending grew 26-fold during this same period. Publicly funded health programs today claim 15 cents of every government tax dollar, as opposed to only 6 cents in 1965.

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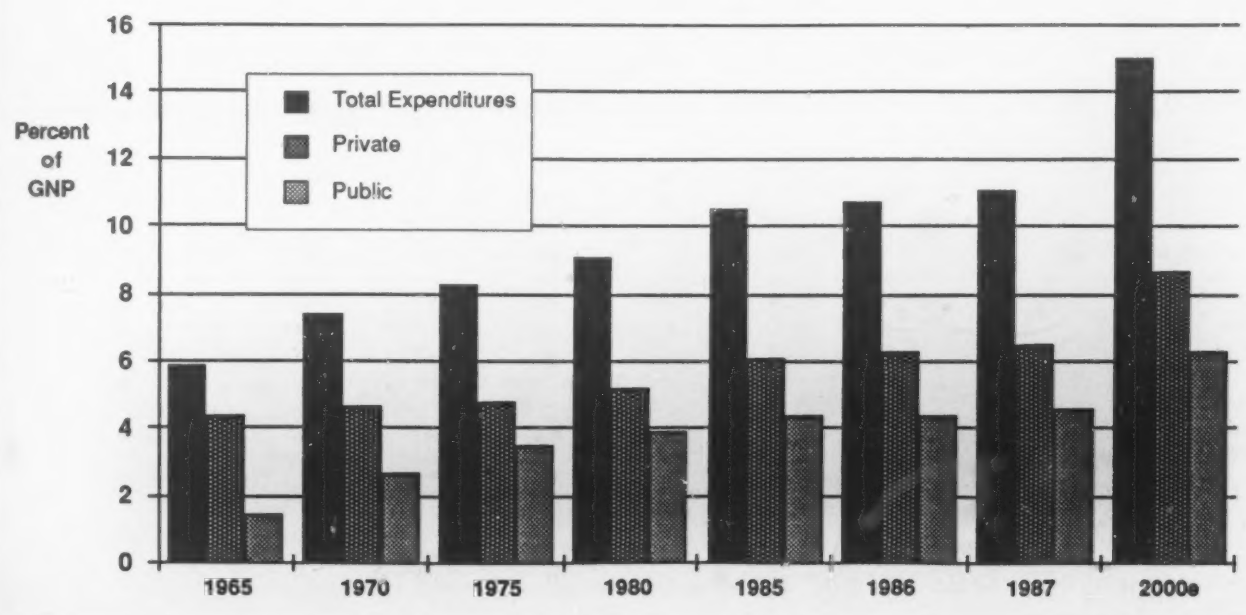
Despite initiatives during the 1980s to reduce public health costs, budget cuts and cost control measures have had a limited effect on the

(See HEALTH COSTS on page 4)

National Health Expenditures as a Percentage of GNP
Selected Years 1965 - 2000e



(HEALTH COSTS from page 3)

spiraling costs of government health programs. Medicare and Medicaid are the engines driving the sharp growth of government health costs. These two largest government health programs, enacted by Congress in 1965, now account for 28 percent of the total health care bill for all Americans. Medicare alone has become the largest purchaser of health-care services in this country. The federal Medicare program, which now serves over 33 million elderly and disabled Americans is projected to cost more than Social Security and national defense combined within 25 years.

The Medicare Dilemma

In 1983 Congress helped slow down the growth rate in Part A Medicare by imposing a system of paying pre-set amounts for specified ailments and clamping down on annual

(See HEALTH COSTS on page 5)

National Health Expenditures by Source of Funds and Type

Selected Calendar Years 1965 - 2000

	1965	1970	1975	1980	1985	1986	1987	2000[e]
A. Amount ($Billions)								
Total expenditures	$ 41.7	$ 75.0	$ 132.7	$ 248.1	$ 419.0	$ 455.7	$ 500.3	$ 1,529.3
Private expenditures, total	31.0	47.2	76.4	142.9	244.0	266.8	293.0	879.4
Health services and supplies	29.5	44.7	73.0	138.7	238.0	260.5	286.7	
Direct payments	18.5	26.5	38.1	63.0	103.7	112.6	123.0	
Insurance premiums[a]	10.0	16.9	33.2	72.6	129.1	142.4	157.8	
Other	1.0	1.3	1.8	3.0	5.2	5.5	5.9	
Medical research	.2	.2	.3	.3	.5	.7	.8	
Medical facilities construction	1.3	2.3	3.1	4.0	5.5	5.6	5.7	
Public expenditures, total	10.8	27.8	56.3	105.2	175.0	188.9	207.3	649.9
Health services and supplies	8.8	24.9	51.3	97.5	165.4	178.8	196.5	
OASDHI (Medicare)	-	7.5	16.3	36.8	72.3	78.7	85.4	
Temporary disability insurance[b]	.1	.1	.1	.1	.1	.2	.2	
Workers' compensation[b]	.8	1.4	2.4	5.2	8.0	8.5	9.0	
Public assistance medical payments[c]	2.1	6.3	15.1	28.1	42.0	46.8	52.3	
Department of Defense medical care	.9	1.8	2.8	4.2	8.4	8.5	9.5	
Maternal and child health programs	.3	.4	.6	.9	1.2	1.2	1.4	
Public health activities	.8	1.4	3.2	7.3	11.8	12.5	13.7	
Veterans medical care	1.1	1.8	3.5	5.9	8.7	9.0	9.9	
Medical vocational rehabilitation	.1	.1	.2	.2	.3	.4	.4	
State and local hospitals	2.4	3.3	5.2	5.8	7.3	7.4	8.1	
Other[d]	.3	.8	1.9	3.0	5.3	5.6	6.6	
Medical research	1.3	1.8	3.1	5.1	7.1	7.6	8.2	
Medical facilities construction	.7	1.1	2.0	2.5	2.6	2.5	2.6	
B. Percentage Distribution								
Total expenditures	100.0	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Private	74.1	63.0	57.5	57.6	58.2	58.5	58.6	57.5
Public	25.9	37.0	42.5	42.4	41.8	41.5	41.4	42.5
Federal	13.3	23.6	27.9	28.6	29.4	29.1	28.9	32.6
State-local	12.6	13.4	14.6	13.8	12.4	12.3	12.5	9.9
C. Per Capita								
Total expenditures	$ 206	$ 349	$ 591	$ 1,055	$ 1,696	$ 1,827	$ 1,987	$ 5,551
Private	152	220	340	608	987	1,069	1,164	3,192
Public	54	129	251	447	708	757	824	2,359
Federal	27	82	165	302	498	532	575	1,810
State-local	27	47	86	145	210	225	249	549
D. As a Percent of GNP								
Total expenditures	5.9%	7.4%	8.3%	9.1%	10.5%	10.7%	11.1%	15.0%
Private	4.4	4.7	4.8	5.2	6.1	6.3	6.5	8.7
Public	1.5	2.7	3.5	3.9	4.4	4.4	4.6	6.3

[a] Covers insurance benefits and amount retained by insurance companies for expenses, additions to reserves, and profits.
[b] Includes medical benefits paid under law by private insurance carriers and self-insurers.
[c] After 1965, primarily Medicare.
[d] Expenditurers for Alcohol, Drug Abuse, and Mental Health Administration; Indian Health Service; school health and other programs.
[e] Projection.
Source: Department of Health and Human Services, Health Care Financing Administration; and Tax Foundation computations.

(HEALTH COSTS from page 4)
inflation adjustments. However, Part B costs — primarily physicians' services — have increased eightfold since 1975. Three-quarters of Part B spending comes from the Federal Treasury. Under current law, the other 25 percent must come from monthly premiums withheld from beneficiaries' Social Security checks. With Part B spending rising at nearly 17 percent annually, two negative outcomes result: (1) Sharp increases in the Part B premium — from $110 per year in 1980 to $335 in 1989, not including a mandatory $48 extra in 1989 to help finance the new Medicare Catastrophic Act; (2) Rising Part B costs contribute directly to the federal budget deficit. The House Ways and Means Committee estimates that in 1989 Part B will bring in $9.6 billion in premiums, but drain $32.7 billion from the federal treasury. Even with the administration's savings proposals, Medicare outlays are projected to increase from $94.9 billion in FY1990 to $143.3 billion in FY1994. This sharp increase significantly exceeds general inflation and the growth in the beneficiary population. Unfortunately, this still does not satisfy the Federal government's desire to increase Medicare outlays.

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The Medicare Catastrophic Coverage Act (MCCA) signed into law on July 1, 1988, represents the largest expansion of the Medicare program in its 24-year history. The benefits contained in the act, estimated to cost about $31 billion between 1988 and 1993, are to be paid for by those eligible for the program whether or not they have private supplemental insurance coverage. Payment is made in the form of (1) increased Part B monthly premium rates (also called the flat premium) and (2) increased income taxation of Medicare-eligible individuals called the "supplemental premium." The flat and supplemental premiums would finance the program's catastrophic and drug benefits at the rate of 37 and 63 percent respectively.

Medicare alone has become the largest purchaser of health-care services in this country.

Many tax analysts consider the new supplemental premium to be a poorly disguised progressive tax increase since the act will boost the amount the nation's higher income senior citizens owe the Internal Revenue Service by as much as $1,600 per couple in 1989 and up to to $2,100 in 1993. Poorer seniors will pay as little as $96 a year per couple. Higher-income Medicare beneficiaries are required to pay a 15 percent surcharge on their Federal tax in 1989, rising to 28 percent in 1993. The surcharge is imposed on recipients with incomes high enough to require the payment of Federal income taxes of more than $150 — representing about 41 percent of all couples.

Medicare outlays are projected to increase from $94.9 billion in FY1990 to $143.3 billion in FY1994. This sharp increase significantly exceeds general inflation and the growth in the beneficiary population.

Medicare and Medicaid ... , enacted by Congress in 1965, now account for 28 percent of the total health care bill for all Americans.

Strong opposition to MCCA's surcharge financing provision and its estimated excess reserve have forced Congress to examine options that range from modifying the financing, delaying, or even scrapping the Catastrophic program entirely. The latest Congressional Budget Office estimates indicate that the program's estimated trust fund surplus would not be as large as anticipated earlier this year because of increases in estimated outlays. Historic health program statistics have clearly taught the lesson that health cost outlays inevitably far exceed original projections.

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Once again this year Congress is merely toying with ways to control soaring health costs, emphasizing a modification of the way Medicare pays doctors, including setting annual overall spending targets for physicians' services. Unless serious long-term cost control action is taken to reduce the explosive growth in health care expenses, Americans will be forced to absorb a rapidly growing health care bill in the years ahead, measured both for individuals and government. Unfortunately, dozens of factors will continue to put upward pressure on health costs. These include the aging of the population, increasing life expectancy, sharp inflation in medical care prices, increasing numbers of treatable acute and chronic illnesses, advances in medical technology, expanding drug abuse treatment, and the increasing numbers of AIDS cases.

The accompanying table and chart provide additional details.

Tax Features

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Facts and Figures on Government Finance To Appear in Print and Diskette Format from Johns Hopkins University Press

The complexity of the U.S. economy is accurately and comprehensively depicted in the Tax Foundation's new 1990 edition of *Facts and Figures on Government Finance*, soon to be released by Johns Hopkins University Press. Every aspect of federal, state, and local finance is presented in tables that sum up the economic activity of governmental units, then examine in detail their taxation, expenditures, debt, and other relevant subjects.

New this year is the availability of all 283 tables on spreadsheets for personal computers. All the difficulties associated with purchasing raw data are avoided with this product. Just open up each table with your own spreadsheet software, either Lotus (for IBM and compatible) or Excel (for Apple Macintosh). *Facts and Figures* on diskette constitutes a superior database for economic research.

Published regularly since 1941, *Facts and Figures* combines data from hundreds of sources, including official government documents and private sources, many of them inaccessible or out of print. *Facts and Figures* furnishes the statistical information necessary to any meaningful debate on issues in public finance.

Some 1990 highlights:

■ Total government spending per person was up 132 percent from $3,373 in 1978 to $7,873 in 1988. The federal government spent $4,877 per person, state government $1,610, and local government $1,350.

■ Total government tax revenues per person were up 114 percent from $2,392 in 1977 to $5,126 in 1987. The federal government collected $3,383 in tax revenue per person, state government $1,090, and local government $653.

■ The 1988 Tax Index for all taxes was at 665.7 (1967 = 100). The biggest tax increase as measured by the tax index has occurred in social insurance contributions at 992.8.

■ Federal, state, and local debt reached $13,910 per capita in 1988. Federal debt alone reached $10,637 per person.

■ Of the 23 nations belonging to the Organisation for Economic Cooperation and Development (OECD), the U.S. ranked 20th in tax revenues as a percentage of GDP in 1986 with 28.9 percent. At the high end were Sweden (53.5 percent), and Denmark (50.6 percent). At the low end were Japan (28 percent) and Turkey at 16.1 percent of GDP.

■ In 1988 there were 89.5 million households, with each household averaging 2.66 persons.

■ In 1987, 17.8 percent of the U.S. population was 25-34 years of age, numbering 43.5 million. By the year 2030, 21.2 percent of the population will be 65 and older, numbering 64.6 million.

■ Connecticut had the highest per capita personal income in 1988 at $22,761 — the lowest was Mississippi at $12,291.

■ Of the 49 largest cities in 1987, Washington, D.C., had the highest per capita general expenditures at $5,331 — the lowest was El Paso at $368.

Mark Your Calendars

TAX FOUNDATION'S 41ST NATIONAL CONFERENCE AND ANNUAL DINNER

Wednesday, November 29, 1989

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